

State incentive lures movie producers to Michigan

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The Michigan government's strategy to lure movie productions here with the highest incentives of all the states has worked. But critics of the incentives have said they will try again to put a cap on the total amount of money available to movie producers each year in Michigan.

The new laws signed by Gov. Jennifer Granholm on April 7, 2008, provide a 40 percent refundable tax credit for movie production costs spent in Michigan, or 42 percent if filmed in one of Michigan's 103 core communities. Production companies have to file a Michigan Business Tax return in order to qualify for the credit. The credit is applied to any MBT owed, and the amount above and beyond the tax liability can then be paid directly to the movie makers.

"I personally believe we have to put some kind of cap on it, somewhere in the \$50 (million) to \$100 million range, so we know what it's going to cost us in the next budget cycle," said Sen. Mark C. Jansen, R-Gaines Township.

"I have heard something will be introduced fairly quickly," he added.

Jansen sponsored legislation that was passed by the Michigan Senate in January that would speed up the phase-out of the 22 percent surcharge attached to the Michigan Business Tax. He said opponents of that legislation want to know what would replace that loss of revenue to the state government. He said a cap on the film incentives could "save \$50 (million) or \$75 million. ... That could be an answer to folks opposed to eliminating the surcharge."

Late last summer, state Sen. Nancy Cassis, R-Novi, proposed a bill to cap the film incentives, which went nowhere. While she will still supports a cap, she said she was "very pleased" with the recent news that plans are under way for a film studio in Pontiac, which would be supported by state tax credits and is expected to result in thousands of jobs. Another studio has also been proposed in Detroit.

"What we are thinking is, you build it and they will come — rather than the top-heavy refundable credit giveaways for the productions that are made here in Michigan," said Cassis.

She said movie producers seeking the refundable tax credits "come in and then they leave. These are not sustainable jobs."

When she signed the legislation, Granholm said film incentives in Louisiana "grew spending (by movie producers there) from \$7 million to almost \$350 million, supporting 18,882 jobs." She said New Mexico incentives grew its movie industry from \$1.5 million to \$476 million, and that "every dollar spent in film production is expected to generate \$1.85 to \$3 in economic activity" in Michigan.

"In no state have film credits ever caught up to actual cost to the state," said Cassis. "There isn't a cost benefit to the state. They lose."

She said the Michigan general fund will have to pay out almost \$100 million in film industry incentives in the state's current fiscal year (October 2008 through September 2009). Cassis said the estimated cost to the state in the 2010 fiscal year will be approximately another \$146 million.

"Is it really good tax policy to prefer one industry — that being film — over all others?" asked Cassis.

Anthony Wenson is the head of the state government's Michigan Film Office, which receives applications from producers who want to make movies in Michigan. He said about 37 movies were shot in Michigan in 2008, which resulted in about \$120 million spent here, including \$50 million to \$60 million "paid to Michigan residents who worked on those films."

If Wenson is correct, then the total value of the incentive in its first year would be about \$50 million.

Wenson said about 30 or 40 additional films have been approved for the incentives and could be shot in Michigan in 2009.

"We're starting to see it ramp up again, (producers) getting in line to shoot in Michigan for the spring and summer months," said Wenson.

One film that was shot last year in southeast Michigan was "Grand Torino," a Clint Eastwood film released in January that has done well at the box office. Wenson said he does not know how much money will actually be rebated to the producers of "Grand Torino" after their Michigan costs have been audited and the company pays any tax due under the MBT.

Robert Schellenberg, a Grand Rapids accountant who has already audited several movie production companies for films shot last year in Michigan, said that "technically, not a single rebate check has been issued yet."

"A lot of people in the film industry thought you could go shoot a film, go to the (Michigan) film commission and get a check 90 days later," said Schellenberg, one of the principals of accounting firm Schellenberg & Evers. "But it hasn't worked that way. You have to file your Michigan Business Tax return and make sure all your (Michigan income taxes) are paid."

He said film companies that shot a film here last summer and were hoping to get their rebate in the fall "are not going to get their money until probably March."

Schellenberg said most films already shot in Michigan will not have any MBT liability because "there are no gross receipts in the year they made the movie." However, production companies that did seek the incentives discovered that the Michigan Treasury was "adamant" that they withhold part of wages to be applied toward Michigan income tax — even though many of those workers (including some actors and actresses, in addition to stage hands) were independent contractors and withholding part of their wages is "not normally done," according to Schellenberg. In some cases where no wages had been withheld from contracted employees, the production company itself paid the withholding out of its own pocket to make sure it will qualify for the incentive.

As for a cap on the Michigan incentives, Schellenberg said the movie industry wants "a long-term commitment." He said there is a fear of working in a state with the best incentives (Michigan, New Mexico and Louisiana), and then having that state "pull the plug or put a cap on it."

"The odds are against you" for making a profit on a movie, said Schellenberg. "It's a high-risk business." Michigan actually had movie industry incentives in place prior to the existing incentive laws, but those were "quite a bit smaller and very, very few films" applied for them.

"It wasn't even on the radar" for the movie industry, he said.

He noted that California does not have movie industry incentives, but it does have infrastructure for movie-making and a long history related to it.

"I think there's a real opportunity here," he said.

"The real gain from the jobs comes from developing the infrastructure and training people to work consistently in films," he said.

Rick Hert, executive director of the West Michigan Tourist Association, is also the head of the recently formed West Michigan Film Office, which promotes shooting locations in West Michigan to the film industry. When the proposed bill to cap the incentives surfaced last year, he said, "I personally received phone calls from L.A. from (movie industry) folks that said, 'So, what's going on? You guys on or are you off? Is it done? Are you still in?'"

Hert said there were "productions (in Michigan) that pulled and went. There were some folks that were nervous."

"We're trying to provide a united front right now and say we're serious about building this industry, building jobs, building infrastructure," said Hert.

In April, he and Janet Lockwood of the Michigan Film Office will be going to a movie industry trade show in L.A. where they will pitch Michigan locations and explain the incentives.

Maureen Fahey Dreher, owner of Fahey Dreher Casting in Ada, has been a casting director for 25 years. Most of her work has involved television commercials and corporate marketing productions, but Fahey Dreher Casting did "location casting" on "The Steam Experiment," a movie shot in Grand Rapids last summer. Her company selected three "day players" for the film: two actors and one actress. All three are from Michigan. One lives in Grand Rapids— Julianne Howe-Bouwens, who plays a cop in "Steam."

"Incentives are necessary, but I also believe that once people have filmed here, they will come back," said Dreher.

She said she contacted some legislators last year when a cap on the incentives was proposed, indicating she thought it was a bad idea.

She noted that incentives are used to lure new manufacturing companies here.

"This is a new industry. This is something we are building," said Dreher.

Wenson said the movie industry is a "wonderful opportunity" for the state and that the incentives show "the commitment that the state has to ... the building of this new industry."

A cap would change the momentum, he said. The movie industry is "banking on the fact that incentives will continue, that the opportunity and growth of the industry will continue, because they're making a large multi-million dollar investment in the state of Michigan."